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C O N F I D E N T I A L SECTION 01 OF 02 KUWAIT 001056

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SUBJECT: SADDAM,S DEFEAT COULD BE A GOLDEN OPPORTUNITY FOR
KUWAIT,S BUSINESSMEN--IF THEY SEIZE THE MOMENT

Classified By: Ambassador Richard H. Jones for reasons 1.5 (d)

¶1. (C) Summary: Long before the fighting began on Kuwait's northern border, Kuwaiti firms were bombarding the Embassy with requests to do business with U.S. and coalition forces here, and expressing commercial interests in a post-Saddam Iraq. Kuwaiti businessmen see Kuwait as the logical jumping-off point for any firm wishing to profit from the reconstruction of Iraq, but as yet seem to have few solid plans to enter the Iraqi market themselves, or attract foreign partners to do so. What's more, few Kuwaiti businessmen or officials see the need for reform in Kuwait, either of the country's decidedly xenophobic investment laws, or of a business culture that rewards commercial families with connections, rather than entrepreneurs with novel ideas.

As shown by the pre-war success of smaller companies vis--vis traditional Kuwaiti business families, Kuwaitis will likely have to reinvent their approach to business, or at least start planning, if they hope to have a piece of the Iraq reconstruction pie. End Summary.

The Early Bird Needs No Wasta

¶2. (U) In the last few weeks building up to the war now being fought in Iraq, post's Commercial and Economic sections received hundreds of requests from Kuwaiti companies hoping to do business with the U.S. and Allied forces being pre-positioned in Kuwait. Spurred by the news that some among them were making fortunes supplying a rapidly expanding number of U.S. forces, Kuwaiti companies began a barrage of faxes and phone calls to the Embassy (Post's FCS office received 40-50 requests per day, which were passed to the Army's Directorate of Contracting, KU, at Camp Doha). In addition, the Acting Commercial Officer (A/CO) received requests through colleagues in almost every section of the embassy, who had been contacted by their Kuwaiti friends and neighbors seeking an entree into the military market.

¶3. (C) Alongside these requests came complaints. Large commercial families with wide-ranging interests in Kuwait said they were being prevented from dealing directly with the U.S. military, and protested that 'commercial agents,' many of them third-country nationals, were profiting greatly from their roles as middlemen to the U.S. military. (Comment: Although not specifically stated, it was clear that the largest of these commercial families were angry they appeared to be missing an opportunity to sell to the U.S. military. Worse, the fact that third-country nationals were profiting from quick action and adaptability was an obvious irritant to Kuwaitis used to getting their way in domestic business dealings. End Comment.)

Where's the Plan?

¶4. (C) During the pre-war period, A/CO also visited Kuwaiti businesses and commercial organizations to hear their plans for post-war involvement in Iraq. Some businessmen were clear about their intentions. Well-known businessman Saud al-Arfaj, for example, said he was interested in partnering with U.S. companies here in Kuwait to do business in Iraq. Others, such as the al-Ghanim family, are known to be stockpiling goods in Kuwait's Free Trade Zone for eventual sale to Iraq. But even while expressing their belief that Kuwait would undoubtedly play a vital role in Iraq's reconstruction, few could explain with any coherence what their specific plan was for entry into the Iraqi market.

¶5. (C) Most telling of all was a visit to the Director General of Kuwait's Chamber of Commerce and Industry (KCCI), Mr. Ahmed al-Haroun. Mr. al-Haroun said KCCI did not have any specific plans for involvement in Iraq, although it expected to be involved there commercially. Further, he said, Kuwaiti companies wishing to partner with multinationals to do business in Iraq (as in the case of Mr. al-Arfaj) would find plenty already in the domestic market; after all, Mr. al-Haroun said, Kuwait's foreign investment

laws are "perfect."

16. (C) Comment: When combined, al-Haroun's statements, a lack of planning by individual businessmen and Kuwaiti complaints during the pre-war period seem to paint a picture of a business sector ill-prepared to operate outside the protective cocoon of a Kuwaiti business environment, where personal influence, or *wasta*, is the modus operandi. Even if Kuwaiti businesses hoped to partner with U.S. companies, Kuwait's antiquated business laws are a direct and often insurmountable obstacle to companies looking to enter the Kuwaiti market, or simply make the country their regional base. (Foreign companies are required to have a Kuwaiti majority stakeholder, on top of being taxed at 55%). If Kuwaitis are serious about entering a liberated Iraqi market, they will need to develop a serious plan to do so. End Comment.

JONES